



# **Report to Legal Counsel for The International Performance Assessment Centre for the Geologic Storage of Carbon Dioxide (IPAC)**

## **Report on the Vendor Relationship between IPAC and Climate Ventures Inc.**

**Prepared For:** Mr. John Dipple  
MacPherson Leslie & Tyerman  
1500 – 1874 Scarth Street  
Regina SK S4P 4E9

**Prepared by:** MNP LLP  
Suite 900, 2010 – 11<sup>th</sup> Avenue  
Regina, Saskatchewan S4P 0J3

**MNP Contact:** Brian Tario, CFI  
Partner, Investigative and Forensic Services  
Phone: (403) 536-5602  
Fax: (403) 648-4115  
Email: Brian.Tario@mnp.ca

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## 1.0 EXECUTIVE SUMMARY

MNP has been engaged by MacPherson Leslie & Tyerman ("MLT") on behalf of their client, IPAC, to conduct a forensic investigation with respect to the concerns that have been raised by IPAC's management and Board of Directors about the vendor relationship between IPAC and Climate Ventures Inc. ("CVI").

### Key Observations

- The earliest confirmed contact between Mr. Henry Jaffe (president of CVI) and the University of Regina is a contract dated July 24, 2008 between N2N Corp (a company owned by Mr. Jaffe) and the Office of Energy and Environment. The contract was for N2N to provide project and facility management services related to the development of a business plan for CVI.
- This contract between N2N and the Office of Energy and Environment was sole-sourced based on Dr. Malcolm Wilson's recommendation to Supply Management Services at the University of Regina.
- The reasoning for the sole-sourcing of CVI has been described as an evolutionary process, whereby N2N evolved into CVI to provide specific services for IPAC. It appears that Mr. Jaffe was in an opportunistic position to consult on the creation of a company, and then create the company himself.
- CVI was incorporated on August 27, 2008. Mr. Henry Jaffe, Dr. Malcolm Wilson, and Mr. Ian Bailey are listed as directors. On April 3, 2009, Dr. Wilson and Mr. Bailey are removed as directors, back dated to the effective date of their involvement with CVI.
- CVI appeared to enjoy favourable treatment from IPAC, including: 1) a verbal agreement between Mr. Jaffe and Dr. Wilson that CVI would retain ownership of assets purchased by IPAC; and 2) a regimented monthly payment schedule that was not supported by specific deliverables.
- While there was confusion about the ownership of the assets, the assets were purchased with funds that the University of Regina controlled on behalf of IPAC, and these assets were consolidated into the University's financial statements.
- Prior to current IPAC management being hired, it appears that Dr. Wilson and Mr. Bailey were responsible for overseeing the operations of IPAC. These individuals reported to the VP of Research at the University of Regina.
- Although there was an IPAC Board motion appointing Dr. Wilson as Acting CEO of IPAC, there was no official Board motion granting Mr. Ian Bailey an official role at IPAC.
- Financial oversight of IPAC was through the University-Industry Liaison Office, under the directorship of Mr. Bailey. It also appears that the Technology Transfer Manager, Ms. Janet Berriman, had an unlimited approval level over IPAC funds.
- Approval for CVI invoices appeared to be through the UILO office, specifically Ms. Janet Berriman.
- University contract management policies and procedures were not adhered to for the CVI contract. Various University officials appeared to have followed up on the matter. However, after representation from Mr. Ian Bailey was made to the VP of Research that there was a contract, there appeared to be no further follow-up.

- Dr. Wilson and Mr. Bailey did not disclose their conflict of interest to the University.
- We have no direct evidence that Dr. Wilson and Mr. Bailey monetarily benefited from their relationship with CVI.
- Specific controls at the University were breached that enabled the potential conflict of interest and unexecuted contract to occur. Recommendations have been made in this report to ensure that best practices are implemented at IPAC in regards to sole sourcing, the existence of a competitive bid process, invoice approvals, and contract development.
- With the hiring of the new full-time management team at IPAC and the transfer of financial control over to IPAC, the University is no longer involved in the financial oversight and daily operations of IPAC. Dr. Malcolm Wilson is no longer in his position at the Office of Energy and Environment, Mr. Ian Bailey in his role as Director at the University Industry Liaison Office no longer has any direct involvement with IPAC, and all business relations between IPAC and Mr. Henry Jaffe have been severed.

## 2.0 BACKGROUND TO ENGAGEMENT

### 2.1 BACKGROUND

IPAC is an environmental, non-government organization incorporated in 2009 with \$14 million in funding from Crown Investments Corporation ("CIC"), Royal Dutch Shell ("Shell") and the Government of Canada through Western Economic Diversification ("WED"). Although incorporation was not finalized until September 2009, certain funding amounts were received in 2008 and IPAC commenced operations prior to incorporation.

At this point, IPAC did not have a management team in place. IPAC funds were held in trust by the University of Regina who provided in kind support to IPAC. A Chief Executive Officer ("CEO") for IPAC had not yet been hired, and Dr. Malcolm Wilson was appointed by the IPAC Board of Directors ("Board") as Acting CEO. At the time, Dr. Wilson was also the Director of the Office of Energy and Environment ("OEE") at the University of Regina. Mr. Ian Bailey, Director of the University Industry Liaison Office ("UILO"), was also acting in a management capacity at IPAC during that time.

The new (and current) CFO and CEO of IPAC were hired on November 23, 2009 and May 15, 2010, respectively. Upon performing an analysis of IPAC expenditures, the CFO noted that as at June 2010, IPAC had made payments totalling \$2.6 million to one vendor – CVI. Payments to CVI represented approximately 61% of all IPAC's expenditures as of that date.

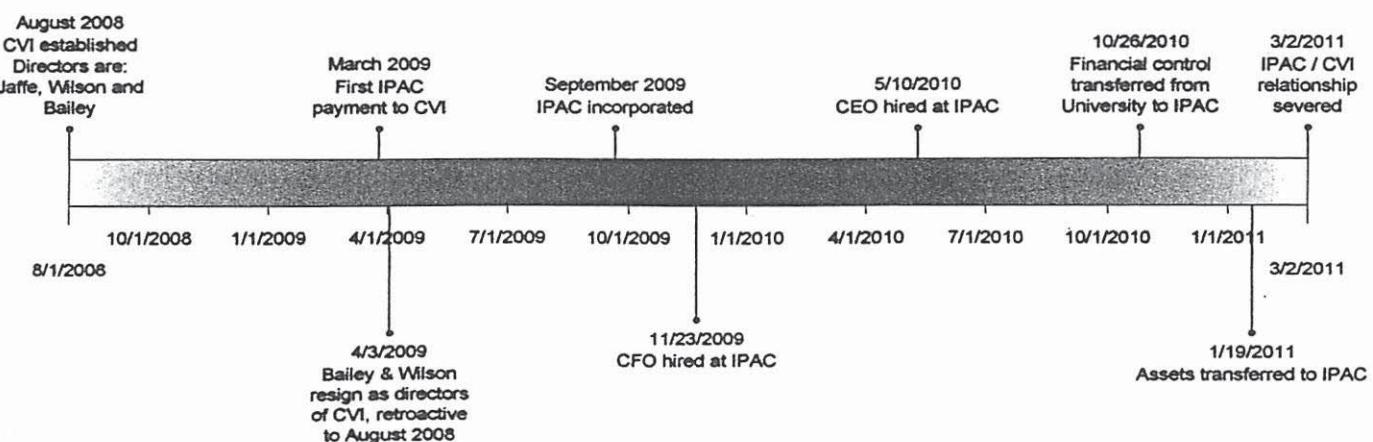
The CFO brought this analysis to the attention of the CEO, who performed due diligence on the relationship between IPAC and CVI. Upon her review, she noted that:

- CVI had been retained without an executed contract on a sole-source arrangement.
- CVI is owned by Mr. Henry Jaffe. However, Dr. Malcolm Wilson and Mr. Ian Bailey were listed as directors of the company on the incorporation documents in August of 2008.
- Dr. Wilson and Mr. Bailey resigned as directors of CVI on April 3, 2009; however, their resignations were retroactive to August 2008.

Based on these discoveries, IPAC management took steps to sever the relationship with CVI, obtain control of their finances from the University of Regina, and establish ownership of the assets that had been purchased.

A timeline summary of the background events is presented in **Figure 1** below.

**Figure 1.**



## 2.2 REPORT OF CONCERN TO BOARD OF DIRECTORS

On March 28, 2011, IPAC management prepared a report to the Board outlining their concerns and findings. In summary, the report noted that:

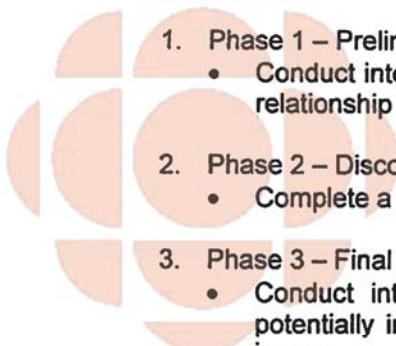
- CVI was established in August 2008. The founding directors were Mr. Henry Jaffe, Mr. Ian Bailey and Dr. Malcolm Wilson. Mr. Bailey and Dr. Wilson filed their resignation papers in April 2009 but the papers indicated a retroactive effective date of August 2008.
- Mr. Bailey and Dr. Wilson acted as de facto management of IPAC until the new CEO was engaged on May 15, 2010.
- Until June 2010, all IPAC invoices were reviewed and approved for payment by officials of the University of Regina. The first IPAC payment to CVI was made in March of 2009.
- CVI was engaged by officials of the University on a sole-sourced basis to provide information technology and related services to IPAC at some point prior to March 2009. There was no executed contract for these services. There was an unexecuted contract which identified projected charges to IPAC.
- By the end of June 2010, total payments to CVI were \$2.6 million, representing approximately 61% of all IPAC expenditures to that point. By January 2011 and the termination of the vendor relationship between IPAC and CVI, payments to CVI totalled \$2.9 million.
- Payments to CVI were mostly made on a schedule of payments, rather than on actual services rendered.
- In October 2010, IPAC, the University of Regina, and WED executed a Transfer and Assignment Agreement which included the full, complete and unhindered transfer of all assets which had been purchased for IPAC's business purposes with IPAC-designed funds to IPAC. Mr. Henry Jaffe insisted throughout this process that CVI had ownership of these assets based on a verbal understanding with University officials, including Dr. Wilson, which had been discussed at the time of CVI's initial engagement.
- Through review of invoices and comparison with other vendors, it was noted that CVI's business practice was to mark up invoices it received for services rendered by third parties for IPAC's business purposes by significant amounts.

This report was presented to the IPAC Board on March 28, 2011. Upon reviewing these allegations, the Board called for an independent forensic investigation of the IPAC / CVI relationship and the potential conflict of interest.

## 3.0 SCOPE OF WORK

The engagement encompassed a forensic investigation of the concerns raised by IPAC management and the Board with respect to the vendor relationship between IPAC and CVI, and the potential conflict of interest.

The project approach consisted of the following phases:



1. Phase 1 – Preliminary Interviews
  - Conduct interviews with the individuals who have first hand knowledge about the history and relationship between CVI and IPAC.
2. Phase 2 – Discovery
  - Complete a review of relevant documentation associated to the concerns of the Board.
3. Phase 3 – Final Interviews
  - Conduct interviews with those identified as being responsible for the concerns and/or potentially in a conflict of interest position to secure their point of view and position on the issues.
4. Phase 4 – Reporting and Presentation

### 3.1 QUESTIONS TO BE ADDRESSED

The Board had specific questions and concerns regarding the IPAC / CVI relationship. The Board provided MNP with the list of concerns which was to serve as the scope of the forensic investigation:

- Who negotiated and prepared the (unexecuted) contract(s) with CVI? Who else was involved with CVI? Who initiated the contact with CVI? When was the contact first established?
- Through the course of the evolution of IPAC, who was responsible for the governance, financial oversight and daily operational responsibility?
- Does the University of Regina have written policies and procedures for the management of contracts? If so, were contract management policies and procedures followed with regard to the negotiation and execution of the CVI contract and with regard to the approval and payment of CVI invoices?
- Why was/were the (unexecuted) contract(s) sole sourced and who took that decision? Is there sole source justification data? Does IPAC have any procurement rules? What do they say about sole sourcing contracts?
- Who approved the CVI invoices? Who approved the budget increase for CVI? Were they authorized to do so?
- Was CVI billing by actual hours worked? What was the billing structure?
- Any evidence of personal/inappropriate use of CVI goods/services by IPAC (current/former) agents?
- Did CVI receive favourable treatment over other vendors?
- Who are the CVI shareholders? Since when? Any changes in ownership structure since CVI was established in August 2008?
- Does CVI have any other customers apart from IPAC?

### 3.2 INDIVIDUALS INTERVIEWED

MNP conducted preliminary interviews with eighteen individuals, consisting of current IPAC management, former and current IPAC Directors, and current University of Regina officials. All eighteen individuals were fully cooperative in the process.

Final interviews were conducted with Dr. Malcolm Wilson and Mr. Henry Jaffe.

### 3.3 SCOPE LIMITATIONS

In performing our work, we requested and relied upon data provided to us by IPAC management, IPAC Directors, and University of Regina personnel. We have assumed that all documentation and data provided to us are factual and representative of actual transactions.

In MNP's preliminary interviews and review of documentation, three individuals were identified as being responsible for the concerns raised and/or in a potential conflict of interest position. These three individuals are:

- Dr. Malcolm Wilson, former CEO of IPAC
- Mr. Ian Bailey, Director of UILO
- Mr. Henry Jaffe, President of CVI

MNP was unable to interview Mr. Bailey since he was on long-term disability leave from an unexpected medical condition. It is our belief that given Mr. Bailey's position at the UILO, he would have added considerable knowledge and insight into the working relationship between CVI and IPAC.

MNP scheduled an interview to take place with Mr. Jaffe in Toronto, where he was currently working. Mr. Jaffe cancelled the interview with less than 24 hours notice. Mr. Jaffe volunteered to meet directly with the IPAC Board instead. However, after IPAC management scheduled this meeting, Mr. Jaffe once again was unable to meet in person.

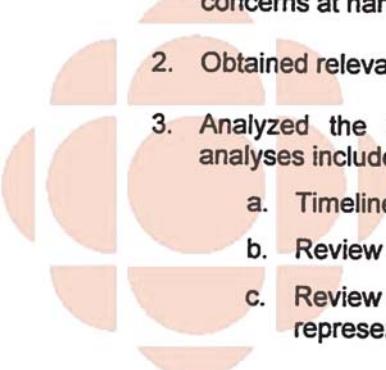
On August 17, 2011, Mr. Jaffe participated in a teleconference with the IPAC Board and MNP. In this teleconference discussion, Mr. Jaffe read a prepared statement and answered some of MNP's questions.

Our observations, finding, and conclusions are based upon the results of our investigation and the evidence available for review as of September 6, 2011. We have planned and performed our engagement in accordance with *Standard Practices for Investigative and Forensic Engagements, 2006* required by the Canadian Institute of Chartered Accountants ("CICA") and the Alliance for Excellence in Investigative and Forensic Accounting of CICA.

We have focused our work on the concerns identified by the Board and the scope of work as described above. We have not conducted an audit of financial statements as defined by the CICA.

## 4.0 METHODOLOGY

The observations and findings of this report are based upon the following procedures performed:



1. Conducted interviews with current IPAC management, former and current IPAC Directors, and current University of Regina management and personnel who have first hand knowledge of the concerns at hand.
2. Obtained relevant supporting documentation from the individuals interviewed.
3. Analyzed the supporting documentation provided by the individuals interviewed. Specific analyses included:
  - a. Timeline analysis of events of interest.
  - b. Review of documentation, specifically invoices, for evidence of approval.
  - c. Review of available email communications to establish a timeline of events and representations made by various individuals
4. Conducted interviews with those identified as being responsible for the concerns and/or in a conflict of interest position to secure their point of view and position on the issues.

## 5.0 DETAILED FINDINGS

### 5.1 WHO IS CVI AND HOW WAS CONTACT FIRST ESTABLISHED?

#### 5.1.1 ORDER IN COUNCIL AND INCORPORATION

The business plan for CVI was established under an Order in Council dated March 6, 2008 whereby the Ministry of Energy and Resources entered into an agreement with the University of Regina to fund a research initiative entitled Climate Ventures from February 1, 2008 to March 31, 2008 in the amount of \$100,000. The applicant for this funding was noted as Dr. Malcolm Wilson of the Office of Energy and Environment ("OEE") at the University of Regina.

CVI was described in the Order in Council as being a "take-to-market" entity envisioned to be a vehicle for commercialization, ensuring the successful transformation of intellectual property to Saskatchewan economic benefit.

Incorporation documents dated August 27, 2008, indicate that the directors of CVI were Mr. Henry Jaffe, Mr. Ian Bailey, and Dr. Malcolm Wilson. A second set of incorporation documents dated April 3, 2009, indicate the removal of Mr. Ian Bailey and Dr. Malcolm Wilson, effective date August 29, 2008.

#### 5.1.2 N2N CORP

Mr. Jaffe's involvement with Dr. Wilson and the University of Regina precedes the establishment of CVI. On July 4, 2008, a contract between the OEE at the University of Regina and N2N Corp. was signed. N2N Corp. ("N2N") is a company owned by Mr. Jaffe.

MNP inquired with the Director of Supply Management Services ("SMS") at the University of Regina about this contract. The Director of SMS indicated that N2N was a consultant hired by Dr. Wilson through the OEE to assist in the establishment of a business plan for CVI. The Director of SMS indicated that it was his responsibility to ensure that a competitive bid environment was created. However, he was directed by Dr. Wilson that the N2N contract was to be sole sourced because there was no one else that could provide that type of service. The Director also stated that he was given direction from Dr. Wilson in regards to a time restriction and didn't have time to go to the competitive bid process.

The Director of SMS indicated that the sole source justification for the engagement of N2N was around Mr. Jaffe's understanding of the project and the requirements around the project objectives. The Director indicated that at the time of his conversation with Dr. Wilson, he was comfortable enough to determine that it was in the best interest of the University to move forward on a sole source basis.

The mandate of the contract between the University of Regina and N2N was for N2N to provide project and facility management services related to the development of a company currently called CVI. The Director indicated that, at the time, he was not aware that CVI was a company owned by Mr. Jaffe as well. The total contract amount between the University of Regina and N2N for the establishment of CVI was \$99,979, which is just shy of the amount authorized under the Order in Council dated March 6, 2008 for the establishment of a business plan for CVI. Payments under the N2N contract were also based on a schedule of payments attached as Appendix A to the contract.

## 5.2 WHO WAS RESPONSIBLE FOR GOVERNANCE, FINANCIAL OVERSIGHT AND DAILY OPERATIONS AT IPAC?

Current and former Board members have described IPAC as being a concept and vision that was proposed by Dr. Wilson and Mr. Bailey to CIC. After funding was secured for the establishment of IPAC, Dr. Wilson and Mr. Bailey acted as de facto management of IPAC. Both gentlemen held positions at the University of Regina and reported directly to the Vice-President of Research, who was also the Chair of the IPAC Board.

In our discussion with the individual who was the VP of Research at that time, he confirmed that the OEE under the directorship of Dr. Wilson and the UILO under the directorship of Mr. Bailey, were responsible for overseeing the operations of IPAC. He also confirmed that both of these individuals reported to the VP of Research.

Dr. Wilson's appointment as Acting CEO was documented in IPAC Board minutes dated November 10, 2009.

### 5.2.1 MR. IAN BAILEY

It has been noted by both current IPAC management and former IPAC Board members that Mr. Ian Bailey was part of the de facto IPAC management team in the early start-up days at IPAC. Mr. Ian Bailey has been described interchangeably as being the Acting Chief Operating Officer ("COO") and Acting Chief Financial Officer ("CFO") of IPAC during that time period.

However, in our interview with a former member of the IPAC Board, he strongly stated that Mr. Bailey was never appointed or approved by the Board to be either CFO or COO of IPAC. The former Board member stated that Mr. Bailey, under the auspices of the University, had certain responsibilities in terms of the original funding and would have taken direction from the University for managing the funds. However, he was never at any point in time an employee, an agent or serve in any other capacity when it came to IPAC.

MNP's review of IPAC's Board minutes confirmed that there was never a Board motion made granting Mr. Bailey an official title at IPAC.

### 5.2.2 FINANCIAL OVERSIGHT

MNP inquired with representatives from the University of Regina's Finance Office to determine who had financial oversight and signing authority on IPAC's accounts prior to IPAC's current CEO and CFO coming onboard.

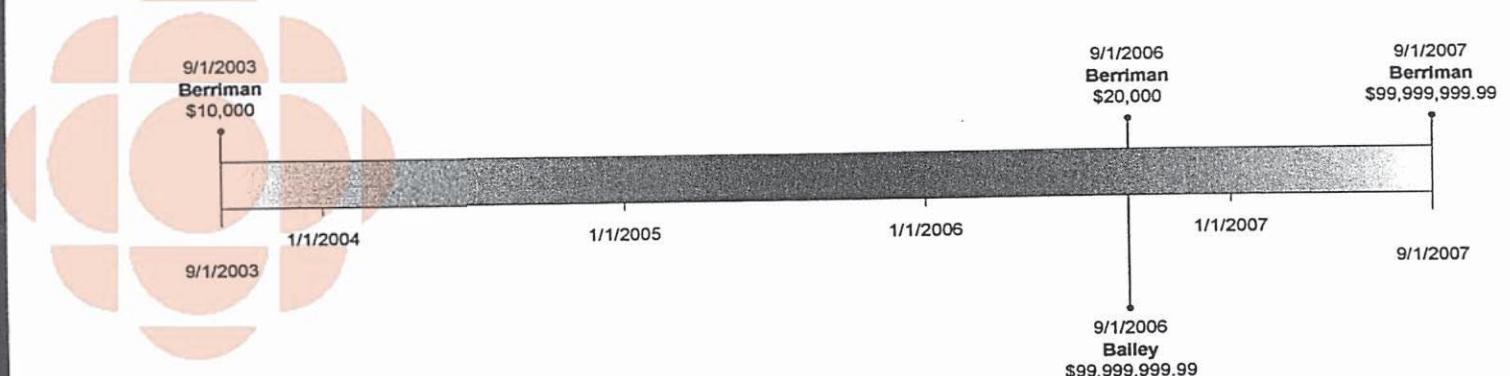
The Director of Financial Reporting at the University of Regina indicated that the IPAC funds fell under the same approval queue as UILO funds. Therefore, Mr. Ian Bailey and Ms. Janet Berriman, Technology Transfer Manager at the UILO, were the primary signing authorities on the account.

Dr. Malcolm Wilson never had requisition approval authority for the IPAC funds. However, the Director of Financial Reporting indicated that there were numerous instances of journal vouchers of expenses from the Office of Energy and Environment (where Dr. Wilson was Director) over to the IPAC account. The Director of Financial Reporting indicated that it was possible that Dr. Wilson could have approved expenses in his own office and had them moved into the IPAC account. She indicated that there were also instances where journal voucher expense transfers were initiated by the UILO office as well. Also, there were a number of expense claims made by Dr. Wilson charged directly to IPAC accounts. These were approved for payment by Ms. Janet Berriman.

The Director of Financial Reporting had no explanation as to why individuals from the OEE or UILO could journal voucher expenses in the IPAC account.

**Figure 2** below depicts the signing authorities, when those authorities were implemented, and the authority limits over the IPAC account prior to IPAC obtaining control of their finances.

**Figure 2.**




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### 5.3 WERE UNIVERSITY CONTRACT MANAGEMENT POLICIES AND PROCEDURES FOLLOWED FOR THE CVI CONTRACT?

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#### 5.3.1 SUPPLY MANAGEMENT SERVICES

MNP interviewed the Director of Supply Management Services ("SMS") at the University of Regina with respect to the policies and procedures that should have applied to the CVI contract.

The Director of SMS confirmed that IPAC's funds, once placed into the University of Regina's coffers, would have to comply with the University's policies and procedures. The Director indicated that based on University policies, before any payments are made to a vendor, a signed contract would have to be in place and he would have to sign off on the terms and conditions.

In CVI's case, the Director of SMS never saw a signed contract. He indicated that he followed up with numerous individuals about why payments were being processed without a signed contract, including Ms. Berriman, the AVP of Finance, the VP of Research, and the VP of Administration, but did not receive any reaction other than interest. After numerous unsuccessful inquiries, the Director of SMS stopped asking questions and instead maintained a file of all CVI related documentation and payments. The Director of SMS provided MNP with email correspondence dated March 30 and 31, 2009, indicating his follow-up with Ms. Berriman after he saw the payment of the first CVI invoice dated March 20, 2009. Ms. Berriman's response was as follows:

*"...further to your phone message I do not have a signed agreement to provide to you at this time. The agreement for the IPAC-CO2.org Network of Excellence project will be between IPAC-CO2 Research Inc and Climate Ventures Inc. Henry Jaffe is the President of Climate Ventures Inc. N2N Corp is not a party to the agreement nor is the University. The agreement has been drafted and approved by the interim directors of IPAC-CO2 and Climate Ventures Inc. My understanding is that the execution of the agreement however is pending the incorporation of IPAC-CO2 Research Inc. The project is related to the IPAC-CO2 funding agreements between the UofR and CIC, and the UofR and Shell Canada."*

*I am advised by the lawyers that incorporation of IPAC-CO2 Research Inc will be completed within the next few weeks and not later than the end of April. In the interim the UILO is custodian of the funds received for IPAC-CO2 and in that role processed payment of the invoice from Climate Ventures Inc. If we cannot pay this invoice in the interim I suppose it won't greatly disadvantage the commencement date of the project however I will discuss with Ian Bailey when he returns from vacation on Monday of next week."*

A second set of email correspondence dated May 14 and 15, 2009 was provided which showed an employee in SMS following up with Ms. Berriman again, after the second invoice from CVI was received for payment. Ms. Berriman's response was as follows:

*"...IPAC-CO2 funding representatives from the government have been on vacation delaying the signing of the incorporation papers past the anticipated April 30 which has resulted in a second payment being due to Climate Ventures Inc. There is a meeting scheduled for next week to re-commence this process."*

The Director of SMS concluded that procurement policies were definitely breached in the IPAC / CVI relationship.

### 5.3.2 ESTABLISHING THE EXISTENCE OF A CONTRACT

MNP inquired with the President of the University of Regina as to how CVI managed to continually receive IPAC-designated funds from the University without a contract in place. The President stated that this occurred because there was an email between Mr. Ian Bailey to the VP of Research indicating that there was a contract in place.

MNP obtained the email dated November 18 and 19, 2009 and noted that the VP of Research at the time had written Mr. Bailey, as follows:

*"I need a briefing on the relationship between IPAC and CVI.  
I understand IPAC funds are being spent in relation to Climate Ventures Inc.  
Are there incorporation documents for Climate Venture Inc? Is the University a partner in that operation? Is there a contract between IPAC and Climate Ventures Inc? I need to better understand the relationship of Climate Ventures Inc to the University and its relationship to ITC, IPAC, PTRC, NAISE."*

Mr. Bailey's response indicated that CVI was originated by Allan Cahoon who received \$100,000 to establish this commercialization venture capital vehicle. This is contrary to the evidence obtained that the Order in Council approved \$100,000 for Dr. Wilson and the OEE for the establishment of a business plan for CVI.

Mr. Bailey's response also included the assertion that "We have a contract with CVI to develop the Community Portal, necessary for the core operations of IPAC-CO2."

The President of the University indicated that they have not been able to find the actual signed contract.

In a prepared statement which he read in a teleconference discussion with MNP and the IPAC Board, Mr. Jaffe confirmed that there was no signed contract. Mr. Jaffe indicated that he was informed that no contract could be signed at the time CVI commenced business with IPAC because IPAC was not yet incorporated. However, the project could not be delayed because it would have resulted in the loss of seed funding from WED. Mr. Jaffe stated that he therefore made the business decision to undertake the project with IPAC on the basis of a handshake with the University of Regina, the Office of Energy and Environment and the University Industry Liaison Office.

When pressed to confirm if this was an agreement he had with Dr. Wilson and Mr. Bailey, Mr. Jaffe only confirmed that these two individuals were of the Office of Energy and Environment and the University

Industry Liaison Office. MNP pressed further if there was anyone else from the University who was involved in this handshake agreement. Mr. Jaffe indicated that there may have been because he had many different discussions with different parties, but he would have to go into his records to see who they might have been. MNP requested that he review his records to clarify this point. However, despite repeated follow-up Mr. Jaffe did not provide any further documentation or clarification to MNP after the teleconference discussion.

### 5.3.3 IPAC BOARD KNOWLEDGE OF A CVI CONTRACT

MNP reviewed email correspondence and interviewed current and former IPAC Board members to determine if the Board was aware of the existence of a sole-sourced contract with CVI.

Although IPAC was incorporated in September 2009, the first Board meeting did not take place until November 10, 2009. At this Board meeting, there was a "Schedule F" attached to the Board package which included a Professional Services Summary for the period ending October 2009. This summary indicated that a total of \$341,350 had been paid to CVI.

Per review of the CVI invoices, MNP noted that as of the date of the first Board meeting, CVI invoices totalling \$967,363 had been issued to IPAC, and total payments of \$826,232 had already been made by IPAC to CVI. It is unclear how the figure of \$341,350 that was presented to the Board was calculated.

MNP reviewed email correspondence dated September 28, 2009 from the IPAC Board Chair at the time to the other Board members. (It should be noted that at this point in time, IPAC was incorporated but since there had yet to be an inaugural Board meeting, these Board members were not officially ratified). The email correspondence indicated that the inaugural Board meeting had to be delayed until a later date. However, given that there were a number of critical operational items to be addressed prior to that time, the Board Chair suggested that agreement be reached by email so that certain activities can take place. The email also recommended that email responses be directed to Dr. Wilson.

The email correspondence listed two reasons why prompt Board decisions were required. The first reason was to have a community portal up and operating prior to the UN conference in Copenhagen in December. The second was to allow spending of the WED money as soon as approval of the funding was received.

The email contained an attachment of five decisions that required Board approval. Decision #4 was as follows:

*That the Board approve the continuation of work on the Collaborative Community Portal (CCP) through the current contractor (sic).*

*Rationale: The CCP is a critical element in the success of IPAC-CO2 as a distributed network. There is a description in the WED proposal and in the form of a PowerPoint presentation in the Board package. The preliminary design and operation of the CCP has been discussed with the network members and has received outstanding kudos for its innovation and concept development. The goal of the CCP is to be the basis for the sustainability and operation of IPAC-CO2. It is also aimed to have the programming functional and operating for display at the Copenhagen meeting.*

*The risk here is that the Board asks for a tender as opposed to using the current Saskatchewan-based developer on a sole source basis. The requirement to go to tender will result in significant delays and an inability to meet the goals of IPAC-CO2 to have its interface up and running as soon as possible. IPAC-CO2 will inevitably depend on the CCP to allow it to function.*

MNP reviewed an email from Dr. Wilson dated October 16, 2009 addressed to three Board members, indicating that he had not yet received a reply from these three individuals. Dr. Wilson stated in the email that the message from the IPAC Board Chair had been approved by the Shell Board representative and

the three University Board representatives. He stated that "I can only assume that your silence is concurrence since we do need to move forward as noted."

In our interviews with two of the Board members to whom Dr. Wilson's email was addressed to, they indicated that they did not respond to the email since they deemed it inappropriate to make Board decisions prior to official ratification of the Board. However, since four out of seven Board members had voted affirmatively via email, approval for the decision items was granted.

It was not represented to the original Board members that there was no signed contract between IPAC and CVI.

#### 5.4 WHY WAS CVI SOLE-SOURCED?

Dr. Malcolm Wilson requested the preparation of a sole-sourced justification document for CVI in October of 2009. As of October 1, 2009, CVI invoices totalling \$503,496 had already been received and paid by IPAC. As evidenced in the email traffic between Dr. Wilson, Henry Jaffe and the Communications Director at IPAC, the sole source justification document was prepared by Mr. Jaffe himself.

The sole source justification document discussed several vendor requirements and criteria that CVI exclusively fulfilled. These included:

- Various technology development skills
- Various business consulting, project management and professional services skills
- Geographic proximity
- Subject matter expertise in carbon capture and storage and sustainable energy

The sole source justification document concluded with the paragraph:

*"Climate Ventures Inc. of Regina and its team of professionals were identified as the only vendor that fulfilled all of the mandatory criteria. Indeed Climate Ventures was purpose built as a company, in collaboration with the Government of Saskatchewan and the University of Regina to offer these unique competencies."*

In our interviews with Dr. Wilson and the Vice-President of Administration of the University of Regina, the reason for CVI being sole-sourced was described as being an evolutionary process. Since N2N was initially hired in July of 2008 to provide project and facility management services for the development of CVI's business plan, N2N acquired knowledge and expertise on what CVI was supposed to do. The Vice President of Administration indicated that the argument for sole-sourcing CVI was that it evolved from N2N, and \$100,000 had been invested in N2N to develop the expertise around what CVI was supposed to do (i.e. building a community of practice).

Based on the sole source justification document and our interviews, it appears that since Mr. Jaffe's company N2N was engaged in July of 2008 to provide project management services in the development of the concept of CVI, it was opportunistic for him to create CVI in August of 2008 to provide the specific services that would be required.

It should be noted that despite representations made that CVI is a Saskatchewan-based company, it was actually incorporated in Ottawa. Mr. Jaffe's personal residence, as listed on the incorporation documents, is also in Ottawa. CVI merely maintains office space in Regina.

It should also be noted that this sole source justification document was never presented to the Board.

## 5.5 WHO APPROVED CVI INVOICES?

In our interview with the current IPAC CFO, she indicated that prior to IPAC obtaining control of their finances and funding, invoices were approved by the Technology Transfer Manager at the UILO office, Ms. Janet Berriman. Prior to the CFO being hired, invoices would go straight to Ms. Berriman. After the CFO was in place, invoices would come to the CFO to be coded. She would sign off on them that she had seen them and coded them, and they would go to Ms. Berriman for approval for payment.

MNP inquired with Ms. Berriman about the approval process for IPAC invoices. Ms. Berriman denied approving any IPAC invoices. She stated that she was merely processing the invoices. The approvals would come from Dr. Wilson, Mr. Bailey, and eventually the CFO of IPAC after she was hired. MNP inquired as to why her signatures appeared on CVI invoices if she was not approving them. Ms. Berriman stated that her initials on the invoices were to approve the fund allocation.

MNP inquired as whether Dr. Wilson or Mr. Bailey ever signed the invoices. Ms. Berriman stated that they did not sign the CVI invoices. Ms. Berriman indicated that Mr. Bailey and Dr. Wilson had a "handshake contract" with CVI to provide services for a certain amount of money. A contract and schedule of payment was drawn up and she was instructed by Mr. Bailey to process the invoices as they came in. She did not seek his signature on any of the invoices.

MNP asked how Ms. Berriman determined that IPAC had received CVI deliverables before making payments in accordance with the schedule of payments. Ms. Berriman indicated that she didn't have to; that wasn't her job.

MNP reviewed all CVI invoices for the period between March 20, 2009 (the first CVI invoice received by IPAC) to August 3, 2010.

Appendix A is a listing of all CVI invoices for the period between March 20, 2009 to August 3, 2010, depicting the signatures that appeared on the invoices.

Although Ms. Berriman indicated that she merely processed all the invoices, her signature specifically appears on 15 invoices, totalling \$1,809,669. IPAC's CFO began signing invoices for coding purposes in February of 2010.

## 5.6 CVI'S BILLING STRUCTURE

Per review of CVI's invoices that were submitted to IPAC, it appears that there were several billing practices that appeared on each invoice:

- Monthly invoices contained a line item entitled "Public and Community Site Development" that was billed in accordance to the Schedule of Payments.
- There were certain line items that appeared such as "Grid Computing System Configuration and Installation" or "Certification and eLearning Development" that had flat rates (e.g. \$30,000) without any support for the figure.
- Certain line items such as "Help Desk Support Services" or "Accounting System Support" stated the hours worked and the rate (i.e. "21.5 hours @ \$150 / hr"). No supporting breakdown of hours worked was submitted with the invoices.

MNP inquired with Mr. Jaffe about his billing practices, specifically if he reported on the deliverables as part of his monthly invoicing process. Mr. Jaffe stated that he only reported on the deliverables if he was asked to. Otherwise, it was not something that he did as part of his monthly invoicing process.

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## 5.7 DID CURRENT OR FORMER IPAC MANAGEMENT PERSONALLY BENEFIT FROM RELATIONSHIP WITH CVI?

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### 5.7.1 CONFLICT OF INTEREST POLICY

The University of Regina has a Conflict of Interest and Conflict of Commitment Policy that was approved in 2004 and is still in effect today. The policy states that "*Conflicts of interest and commitment that exist, or which might reasonably be perceived to exist, shall be disclosed in accordance with this policy*". The procedure for disclosure is further outlined as follows:

*A university member shall disclose to his or her supervisor any conflict of interest or conflict of commitment that exists or might reasonably be perceived to exist. In addition to disclosure to a supervisor, it may also be appropriate to disclose such conflicts, whether real or perceived, to another University official (such as the Manager of the Office of Research Services or the Manager of Cooperative Education).*

*Disclosure shall be made in each of the following circumstances:*

- *As soon as any situation arises that creates, or may be perceived to create, a conflict of interest or commitment for a university member, or as soon as the university member is aware of such a situation;*
- *Where appropriate, in any required annual report of a university member's activities or plans or both;*
- *Where appropriate, prior to the appointment of the university member;*
- *Where required by a particular grant or contract;*
- *Where otherwise required in accordance with this policy.*

*Normally, a disclosure of a conflict of interest or commitment shall be made in writing.*

Dr. Malcolm Wilson and Mr. Ian Bailey were both employees of the University of Regina during the period where they acted as IPAC management. The conflict of interest whereby they were directors of CVI (a significant vendor to IPAC) should have been disclosed to either an official at the University or to the IPAC Board.

MNP asked two former Board members and three University officials if they recall Dr. Wilson or Mr. Bailey disclosing their conflict of interest. All five people did not recall any disclosures from these two individuals.

Further, one current Board member and one former Board member recalled a specific Board meeting where Dr. Wilson had the opportunity to make the disclosure but neglected to do so. In the Board meeting, a question was posed directly to Dr. Wilson, asking who CVI was. Dr. Wilson's answer was that it was a company owned by Henry Jaffe.

MNP asked Dr. Wilson if he had disclosed his conflict of interest to anyone at the University or on the IPAC Board. Dr. Wilson indicated that the discussions of his involvement with CVI occurred at IPAC Board meetings. When MNP informed Dr. Wilson that no one on the Board at the time recalled having this discussion with him, he maintained that it was his recollection that this discussion took place.

MNP discussed this with the President of the University of Regina. She confirmed that there appears to be a lack of declaration of conflict of interest. She asserted that there is a very clear conflict of interest policy at the University, and she has taken steps to deal with this immediately if Mr. Bailey returns from sick leave.

The President of the University of Regina also indicated to us that the University had engaged a law firm to report on the interaction between the University and certain third party entities which, in part, considered and made recommendations regarding the University's conflict of interest and conflict of commitment policies. Legal counsel for the University of Regina advised MNP as to the summary findings. However, due to the confidentiality of this report, we are unable to disclose the findings in this report.

### 5.7.2 PERSONAL BENEFIT

MNP inquired with Dr. Wilson if he benefitted personally in any way as a result of the relationship with CVI. Dr. Wilson answered that he had hoped to, in the sense that his goal was to continue working with IPAC and utilize the community of practice to increase and maintain his visibility in the community. Dr. Wilson asserts that he did not benefit monetarily as a result of his relationship with Mr. Jaffe.

MNP asked Mr. Jaffe if Mr. Bailey or Dr. Wilson received any monetary reward as a result of their involvement with CVI, and Mr. Jaffe indicated no. MNP asked if Mr. Jaffe if he would allow a review of his books and records to verify his assertion, and Mr. Jaffe refused.

## 5.8 DID CVI RECEIVE FAVOURABLE TREATMENT OVER OTHER VENDORS

### 5.8.1 OWNERSHIP OF ASSETS

In our discussions with IPAC management and current and former IPAC Board members, it was brought to our attention that there was much confusion around the ownership of assets purchased with IPAC designated funds. Upon joining IPAC, the new CEO sought to establish IPAC as an independent, stand-alone entity apart from the University. In addition to seeking control of the finances and funding of IPAC, the CEO also arranged for the transfer of assets purchased with IPAC-designated funds from the University to IPAC.

Upon commencing these discussions, questions arose as to the actual ownership of the assets. Mr. Jaffe claimed that he had ownership of these assets, as he had entered into verbal agreement with Dr. Wilson whereby CVI would have ownership of the IPAC-purchased assets in order to remove IPAC from any associated liabilities. In addition, software such as Microsoft and AccPac licenses were all registered under CVI's name, despite being paid for by IPAC.

While there was confusion about the ownership of the assets, the assets were purchased with funds that the University of Regina controlled on behalf of IPAC. As such, the University consolidated these assets into its financial statements.

MNP inquired with Dr. Wilson if he recalled making a verbal agreement with Mr. Jaffe regarding the ownership of assets. Dr. Wilson stated he recalls a Board discussion around IPAC not having ownership of assets and outsourcing the use of the assets. Dr. Wilson did not recall if these were documented in the minutes. His statement is contradictory to the recollection of the other former Board members that MNP interviewed.

In our telephone discussion with Mr. Jaffe, he maintained that CVI owned the assets and that the assets were purchased with CVI's money and were registered in CVI's name. MNP asked if CVI billed IPAC for those assets. Mr. Jaffe confirmed that CVI was paid an invoice for its services on a monthly basis and the cost of the assets were indeed covered in those invoices. Mr. Jaffe indicated that although CVI billed IPAC for assets, the nature of the proposed contractual arrangement that CVI had with IPAC was that of a business process outsourced entity whereby the assets were purchased by IPAC but owned and

operated by CVI. Mr. Jaffe indicated that this arrangement was reached with Dr. Malcolm Wilson, but it was not put in writing.

In our interviews with IPAC management, they asserted that there are no former or current vendors who enjoy ownership or unfettered usage of IPAC-funded assets.

### **5.8.2 SCHEDULE OF PAYMENTS**

The unsigned contract between IPAC and CVI is supplemented with a "Schedule B – Project Costing" which outlined a proposed monthly payment schedule. One of the concerns raised by the Board is the fact that regular monthly payments were being made to CVI in accordance to Schedule B without clarity on what deliverables were being provided in relation to the payments.

From our review of the CVI invoices, it appears that specific deliverables such as hardware or hours of service provided for help desk or accounting system support were billed in addition to the Schedule B monthly payments.

In our discussion with IPAC management, it was asserted that there are no former or current vendors who enjoy a regimented monthly payment without provision of specific deliverables.

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### **5.9 WHO ARE CVI SHAREHOLDERS?**

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As CVI is a private corporation, shareholder information is not publicly available.

In our interview with Dr. Malcolm Wilson, we asked if he was a shareholder of CVI, to which he responded no.

In our telephone discussion with Mr. Jaffe, he indicated that he is the sole shareholder of CVI.

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### **5.10 WHO ARE OTHER CVI CUSTOMERS?**

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MNP inquired with Mr. Jaffe about his customer base, and he indicated that CVI has no other customers in Saskatchewan.

## 6.0 RECOMMENDATIONS

During the period of time where IPAC's finances were managed by the University of Regina, there were several key weaknesses in, or lack of adherence to, existing controls that enabled the situation with CVI to occur. Now that IPAC has obtained control over their own finances and funding, it is critical that strict procurement policies are implemented to ensure that a similar situation cannot occur in the future.

We understand that IPAC management are in the process of developing a policies and procedures manual for the organization. We have not been engaged to assist with that process, and making comprehensive recommendations for the implementation of a procurement policy is beyond the scope of our current engagement. However, it is important to highlight the key deficiencies that allowed this situation with CVI to occur and to make the relevant recommendations. We have prioritized the recommendations using guidance published by the International Institute of Internal Auditors ("IIA"), as described in Table 1. It is Management's responsibility to decide the ultimate importance and level of urgency of the vulnerabilities identified.

**Table 1: IIA Recommendation Priority Rating**

Recommendation Priority	Definition and Rationale
	<p>As this is a high priority issue, immediate management attention is required. This is a serious internal control or risk management issue that if not mitigated, may lead to:</p> <ul style="list-style-type: none"> <li>▪ Substantial losses</li> <li>▪ Serious violation of organizational strategies, policies or values</li> <li>▪ Serious reputation damage</li> <li>▪ Significant adverse regulatory impact</li> </ul>
Moderate Priority to Improve	<p>As this is a moderate priority issue, timely management attention is warranted. This is an internal control or risk management issue that could lead to:</p> <ul style="list-style-type: none"> <li>▪ Financial losses</li> <li>▪ Loss of controls within the organization</li> <li>▪ Reputational damage, such as negative publicity in local or regional media</li> <li>▪ Adverse regulatory impact</li> </ul>
Low Priority to Improve	<p>As this is a low priority issue, routine management attention is warranted. This is an internal control or risk management issue, the solution to which may lead to improvement in the quality and/or efficiency of the organization. Risks are limited.</p>

Our detailed observations and recommendations are contained in Appendix B.

## 7.0 CONCLUSION

The business plan for CVI evolved from a contract between N2N Corp. (a company owned by Mr. Henry Jaffe) and the Office of Energy and Environment under the directorship of Dr. Malcolm Wilson. This contract, dated July 24, 2008, was for N2N to provide project and facility management services related to the development of a business plan for CVI. This contract was also sole sourced based on Dr. Wilson's recommendation to the University of Regina's Supply Management Services.

Following the engagement of N2N to provide consulting services for the development of a business plan for CVI, Mr. Jaffe was in an opportunistic position to create CVI himself to satisfy the specific requirements. CVI was incorporated a month after the N2N contract, on August 27, 2008. Mr. Henry Jaffe, Dr. Malcolm Wilson and Mr. Ian Bailey were listed as directors. On April 3, 2009, Dr. Wilson and Mr. Bailey were removed as directors, with the effective date of August 29, 2008.

CVI appeared to enjoy favourable treatment from IPAC, including: 1) a verbal agreement between Mr. Jaffe and Dr. Wilson that CVI would retain ownership of assets purchased by IPAC; and 2) a regimented monthly payment schedule that was not supported by specific deliverables.

While there was much confusion about the ownership of the assets, the assets were purchased with funds that the University of Regina controlled on behalf of IPAC. As such, the University consolidated these assets into its financial statements.

Prior to current IPAC management being hired, it appears that Dr. Wilson and Mr. Bailey were responsible for overseeing the operations of IPAC. These individuals reported to the VP of Research at the University of Regina. Although there is an IPAC Board motion appointing Dr. Wilson as Acting CEO of IPAC, there is no official Board motion granting Mr. Ian Bailey an official role at IPAC. Financial oversight of IPAC was through the University-Industry Liaison Office (UILO), under the directorship of Mr. Bailey. It also appears that the Technology Transfer Manager, Ms. Janet Berriman, had an unlimited approval level over IPAC funds. Approval of CVI invoices was granted through the UILO.

University of Regina contract management policies and procedures were not adhered to for the CVI contract. Various University officials appeared to have followed up on the matter and this was rightfully escalated to the VP of Research at the University at that time. The VP of Research inquired with Mr. Ian Bailey about the existence of a contract between CVI and IPAC, and Mr. Bailey represented that there was such a contract. No further follow-up was done beyond this point.

Dr. Wilson and Mr. Bailey did not disclose their conflict of interest to the University of Regina. However, we have no evidence that Dr. Wilson or Mr. Bailey monetarily benefited from their relationship with CVI.

Specific controls at the University were breached that enabled the potential conflict of interest and unexecuted contract to occur. Recommendations have been made in this report to ensure that best practices are implemented at IPAC in regards to sole sourcing, the existence of a competitive bid process, invoice approvals, and contract development.

With the hiring of the new full-time management team at IPAC and the transfer of financial control over to IPAC, the University is no longer involved in the financial oversight and daily operations of IPAC. Dr. Malcolm Wilson is no longer in his position at the Office of Energy and Environment, Mr. Ian Bailey in his role as Director at the University Industry Liaison Office no longer has any direct involvement with IPAC, and all business relations between IPAC and Mr. Henry Jaffe have been severed.

## APPENDIX A

## APPENDIX A

## CV Invoices submitted to IPAC

March 20, 2009 - June 17, 2010

<u>Invoice Date</u>	<u>Amount</u>	<u>Payment Date</u>	<u>Signed by Janet Berriman</u>	<u>Signed by IPAC CFO</u>	<u>Unsigned</u>
20-Mar-09	\$ 44,016.00	16-Apr-09			✓
20-Apr-09	\$ 42,672.00	19-May-09	✓		
02-Jun-09	\$ 128,688.00	15-Jun-09			✓
03-Jul-09	\$ 101,892.00	20-Aug-09			✓
02-Aug-09	\$ 93,114.00	20-Aug-09			✓
02-Sep-09	\$ 93,114.00	14-Sep-09			✓
01-Oct-09	\$ 96,348.00	29-Oct-09	✓		
15-Oct-09	\$ 127,722.00	3-Nov-09	✓		
15-Oct-09	\$ 98,666.43	3-Nov-09	✓		
01-Nov-09	\$ 141,130.50	19-Nov-09	✓		
01-Dec-09	\$ 54,075.00	3-Dec-09	✓		
01-Dec-09	\$ 156,292.50	3-Dec-09			✓
03-Dec-09	\$ 10,500.00	8-Dec-09	✓		
14-Dec-09	\$ 33,810.00	21-Jan-10	✓		
07-Jan-10	\$ 211,456.35	20-Jan-10	✓		
07-Feb-10	\$ 191,025.46	22-Feb-10	✓		
07-Feb-10	\$ 2,363.75	16-Mar-10	✓		✓
01-Mar-10	\$ 8,898.75	26-Apr-10		✓	
15-Mar-10	\$ 630,457.00	24-Mar-10	✓		✓
01-Apr-10	\$ 9,213.75	26-Apr-10		✓	
07-Apr-10	\$ 94,346.70	22-Apr-10	✓		✓
07-May-10	\$ 6,378.75	19-May-10		✓	
07-May-10	\$ 157,090.50	19-May-10		✓	
15-Jun-10	\$ 3,168.00	22-Jul-10	✓		✓
17-Jun-10	\$ 71,927.90	22-Jul-10	✓		✓
17-Jul-10	\$ 50,344.30	19-Aug-10		✓	
03-Aug-10	\$ 50,344.30	19-Aug-10		✓	

## APPENDIX B

**IPAC-CO2**  
**OPPORTUNITIES FOR IMPROVEMENT TRACKER**

**ANTI-FRAUD AND FINANCIAL CONTROLS**

#	Observation	Implication	Severity of Deficiency	Recommendation	Preventative or Detective
1	CVI was sole-sourced to provide IT and various services to IPAC. However, the appropriate sole-sourcing justification and documentation was not presented to the Board. Although an email and document exists where Dr. Wilson requested Mr. Jaffe to provide justification for the sole-sourcing, this was prepared after payments had already been made to CVI. The document was also not presented to IPAC's Board.	Lack of a competitive bid process for significant contracts can lead to situations where IPAC is not receiving value for service and/or putting themselves in a conflict of interest position.	Medium	A competitive tendering process should be implemented for purchases or contracts over a certain dollar amount.  If there is a situation where a competitive tendering process isn't necessary or feasible, a justification document should be prepared, presented to the Board, and retained in the procurement records as an audit trail.	Preventative
2	Although regular payments based on the Schedule of Payments was being made to CVI, no one was checking to ensure that the related deliverables had been received prior to payment.	Lack of matching process between deliverables received and payments made can lead to a situation where IPAC is paying for goods/services that are inadequate and/or not received.	Medium	In order to ensure that payments are made for goods actually received and services actually rendered, the related invoices should be attached to the cheque for the cheque signer to review.  The cheque signer should review the attached invoices in detail to determine that they reflect charges for goods already received / services already rendered.	Detective
3	While the IPAC finances were under the management of the UILO office, there appears to be confusion on the role of various signers as to who was approving payment, processing payment, approving coding, etc.	Lack of understanding over approval / authority roles can lead to a lack of accountability over IPAC's finances.	Medium	IPAC's procurement policy should clearly define the roles and responsibilities of various signers. For example: <ul style="list-style-type: none"> <li>- Whose signature on the invoice indicates that confirmation that goods / services have been received for coding</li> <li>- Whose signature on the invoice indicates approval for coding</li> <li>- Cheque signer signature indicates review of invoice and payment approval</li> <li>- Whose signature on invoice indicates processing and/or entry into accounting system</li> </ul>	Preventative
4	Neither the unsigned contract or the statement of work between CVI and IPAC contain a right to audit clause.	Lack of a right to audit clause results in a lack of transparency and the inability to answer any concerns related to a contract.	Medium	For contracts over a certain dollar value, IPAC should ensure that a right to audit clause is included in the contract.	Preventative